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J. C. MacPher

Canada Textile Industry Royal Commission on
Factures ^{submitted on behalf} Canadian Cottons, Ltd

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J.C. McRae, Esq., R.C.

ROYAL COMMISSION ON THE TEXTILE INDUSTRY

Commission in the next paragraph includes

"the causes of the existing or any other sudden cessation in question being one which took place at the mill of another company.

We propose in this Brief to deal only with questions solely affecting Canadian Cottons, Limited. General questions affecting all the trade will be discussed in the general brief submitted on behalf of the textile industry.

In view of the controversy that has arisen during the sittings of the Royal Commission regarding the question of inventory discounts, and particularly as to the correctness of the Company's income tax returns, we submit an outline of the manner in which these discounts have been dealt with by the Company and a statement of the considerations which render it advisable to adhere to such a system.

A. ENQUIRY BEYOND THE SCOPE OF THIS COMMISSION.

The Company's argument is presented under foreign competition and the extent to which the reserve of the objections made on its behalf in so far as the production and discussion of income tax payment over periods of temporary difficulty. The statements are concerned.

The Commission has been appointed for the purpose of making an inquiry into various matters which "will enable sound conclusions to be reached regarding the position of this and other branches of the Textile Industry in relation to British and foreign competition and, in particular, the extent to which the employer can reasonably and properly be expected to maintain employment over periods of temporary difficulty".

Section 6 of the Income War Tax Act to have a government claim for income tax discussed in camera and the right to privacy created by Section

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ROYAL COMMISSION ON THE TEXTILE INDUSTRY

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FACTORY SUBMITTED ON BEHALF OF
CANADIAN COTTONS LIMITED.

We propose in this Bill to get out a
with due attention to safety立法的
limiting. Generally speaking all the
trade will be discussed in the earliest part
within or outside of the textile industry.
In view of the controversies just now
arisen during the sittings of the Royal Commission
regarding the destruction of imported cottons, and
particularly as of the correctness of the Compania's
income tax returns, we submit an outline of the
matter in which these discontents have been dealt with
by the Company and a statement of the considerations
which render it advisable to adopt such a system.
A. INDUSTRY BEYOND THE SCOPE OF THIS COMMISSION
The Company's statement is as follows:
In view of the objection made on its behalf in so
far as the protection and discussion of income tax
statements are concerned.

The Commission has been apprised for the
purpose of writing an interim into various matters
which "will suffice some compositions of be lessening
regarding the position of this and other provinces
of the textile industry in relation to British and
foreign competition and, in particular, the export
of which the employer can reasonably and properly
be expected to maintain employment over periods of
temporally sufficient".

The Order-in-Council appointing the Commission in the next paragraph includes "the causes of the existing or any other such sudden cessation of industrial operations as may be referred to" the Commissioner, the cessation in question being one which took place at the mill of another company.

The Order-in-Council may, perhaps, justify the Commission in obtaining evidence regarding the reserves of the Company and the valuations at which it carries its assets. But nothing in the Order-in-Council empowers the Commission to grasp at a jurisdiction it does not possess and to seek to substitute itself for the Court designated by the Income War Tax Act to deal with cases under that Act. A discussion of the correctness or incorrectness of the Company's returns cannot assist this Commission in any way in determining the questions it has been appointed to investigate, to wit: the position of the Textile Industry in regard to British and foreign competition and the extent to which the employer can reasonably be expected to maintain employment over periods of temporary difficulty. The extent of the Company's reserves and the principles on which they are maintained may perhaps be relevant for this purpose, but the Company's dealings with the Income Tax Department are clearly irrelevant to the objects of the Commission.

As a result of the Commission's assumption of an unauthorized jurisdiction, this Company has been illegally deprived of two of the important rights of a Canadian subject, - the right under Section 68 of the Income War Tax Act to have a government claim for income tax discussed in camera and the right to privacy created by Section

The Order-in-Council supporting the
Commission in the next bankruptcy proceeding
"the cause of the existence or any other such
and other cessation of industrial operations as
may be referred to" the Commissioner, the
cessation in question being one which took
place at the will of another company.

The Order-in-Council was, perhaps,
justified the Commission in exercising authority
regarding the release of the Company and the
abolition of which it carries its assets. But
nothing in the Order-in-Council empowers the
Commission to pass as a liquidation if does
not possess any of such of substitute itself for
the Court designated by the Income Tax Act
to deal with cases under that Act. A dissolution
of the correctness of the Commission
in this connection cannot satisfy this Commission
and was to determine the dissolution if was need
for the benefit of investors, to wit: the position
of the Taxable Industry in regard to British and
foreign competition and the extent to which the
employer can reasonably be expected to maintain an
employment over periods of temporary difficulty. The
extent of the Company's releases and the principles
on which they are maintained may render it necessary
for this purpose, but the Company's dealing with
the Income Tax Department the object of
the objects of the Commission.

As a result of the Commission's assumption
of an important liquidation, this Company has
been largely deprived of two of the important
rights of a company subject - the right under
Section 68 of the Income Tax Act to have a
Government claim for income tax assessed in
accordance with the rules of law and
certified by the appropriate officer.

81 of the same Act.

to any legitimate findings of this Commission,

The wording of both these sections and for which another forum is provided by statute, where the interests of the taxpayer of the administration of the Income War Tax are properly safeguarded.

Act in this country is the privacy of the tax-

We submit that this Commission is not entitled to substitute itself for the properly in manifest abuses, and a company is entitled constituted courts of the country, and that the just as much as an individual to be protected evidence regarding the company's income tax against idle or malicious gossip. If it is intended that a Royal Commission should depart from this principle, and that an exception to

section 81 of the Income War Tax Act should be created in its favour, its authority should be clearly stated in the Commission appointing it

~~decisions, we propose, however, to consider and discuss the bookkeeping system of Canadian~~

~~Cottons, Limited and its practice in making up~~

~~from vague and general language which we submit~~

~~Cottons, Limited and its practice in making up~~

~~does not bear the interpretation sought to be~~

~~income tax returns.~~

placed upon it. Even the Supreme Court of

In the first place the Company's system

Canada has asserted on numerous occasions that it

was adopted without any regard to its effect upon

will not grasp at a doubtful jurisdiction. (See

the Company's taxation and several years before

for instance Langevin vs Municipality of St. Marc

the passage of the Business War Profits Tax Act

18 S.C.R. 599 at p. 605).

and the Income War Tax Act, and was in operation from

The evidence was admitted on the ground

the re-organization of the Company in 1910. Long

that Mr. Dawson, the President of the Company, had

before the days of income taxation it was customary

stated as his opinion that the Government had not

for the business man to take stock at the end of each

lost a copper as a result of his company's methods

year and to prepare a statement of his assets and

of valuing its inventory and because he had further

liabilities. A long period of bad business through-

stated that the facts were known to the Income Tax

out the world marked by frequent bankruptcies and

Department. These statements were both made on

already shown the necessity of proper reserves and

questions submitted by the Commission's attorney,

conservative valuation of assets and liabilities

who then conceived it to be his duty to undertake

to remain in business on a stable basis, and to do

an apparently unauthorized investigation on behalf

company like a private agent to apply for

of the Income Tax Department and to go into the

lessons of experience.

entire question of the correct amount of tax due

in the preparation of the annual statement

valuation of this Company's inventory has been

returns, both questions which are in no way relevant

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The World Bank's role in post-conflict situations

As of the time of this communication, the private fax number is 010-65315000. The telephone number for the Chinese Ministry of Finance is 010-65327000.

In most cases, any company is entitled to be protected by
law's letters. A law court may stay such letters.

It is the duty of the members to see that their
representatives are chosen.

Section 81 of the Income Tax Act should be amended to allow for an exception to this principle, and first an exemption to

closedly stated in the Commission's application is
closedly stated in its favor, the authority being given

does not bear the interpretation sought to be
given it by the General Secretary which we submit

for inference language as multiplets of cf. mere
will not stand as a group in transcription. (See
18 S.C.R. 399 at p. 602).

18 S.C.R. 399 at p. 605).

At the compound using the correctness of the compound, a
entire description of the correct amount of fax due
of the Income Tax Department and to go into the
all subsequent manipulation investigation or possibly
who then conceive it to be that of understate
distributions submitted by the Commission, a statement,
these elements were partly made on
Department. These elements were known to the Income Tax
as stated first the facts were known to the Income Tax
of assessing the individual and pecuniary interest tax
not a copper as a result of his compound, a member
stated as his opinion that the Government had not
the M. Desnoes, the President of the Comptroller, had

to any legitimate findings of this Commission, and for which another forum is provided by statute, where the interests of the taxpayer are properly safeguarded.

We submit that this Commission is not entitled to substitute itself for the properly constituted courts of the country, and that the evidence regarding the company's income tax statements was illegally and improperly submitted to this Commission and ought in justice to this company to be disregarded.

2. NATURE OF THE COMPANY'S DISCOUNTS.

Under reserve of the foregoing objections, we propose, however, to consider and discuss the bookkeeping system of Canadian Cottons, Limited and its practice in making its income tax returns.

In the first place the Company's system was adopted without any regard to its effect upon the Company's taxation and several years before the passage of the Business War Profits Tax Act and the Income War Tax Act, and was in operation from the re-organization of the Company in 1910. Long before the days of income taxation it was customary for the business man to take stock at the end of each year and to prepare a statement of his assets and liabilities. A long period of bad business throughout the world marked by frequent bankruptcies had already shown the necessity of proper reserves and conservative valuations for any company which desired to remain in business on a stable footing, and the Company from its reorganization sought to apply the lessons of experience.

In the preparation of the annual statement a valuation of this Company's inventory has been bank accounts and reserves, to declare more dividends

to the legitimate functions of this Commission,
and for which action to be provided by
state, where the interests of the taxpayer
are properly safeguarded.

We submit that this Commission is not
entitled to substitute itself for the project
constituted courts of the country, and that the
adequate regarding the company's income tax
assessment was illegal and improper and
improper to this Commission and ought to be
left to this company to be determined.

B. NATURE OF THE COMPANY'S DISCONTENTS.

Under reserve of the foregoing op-
tions, we propose, however, to consider any
discrepancy between the statement of Complainant
and the facts in marking the
income tax return.

In the first place the company, as far as
was adopted without any regard to its effect upon
the company's taxation and several years before
the passage of the British War Tax Act,
and the Income War Tax Act, and was in operation from
the re-organization of the company in 1910. Long
before the day of income taxation if was customary
for the partners man to take stock at the end of each
year and to prepare a statement of his assets and
liabilities. A long period of pay partners followed
out the work market by frequent partnerships pay
already shown the necessity of proper reserves and
conservative valuations for the company which dealing
of remuneration on a stable footing, and the
company from its inception sought to apply the
lessons of experience.

In the second place the statement of the
valuation of this company's inventories has been

customary. This inventory deals generally with three main items. The first, and by far the major part, of the inventory consists of finished goods and unfinished goods off looms. The second item consists of goods in process of manufacture. The third item consists of raw materials.

The first item (finished goods and unfinished goods off looms) was based upon the Company's listed selling prices for finished goods. It is obvious that to the shareholders and others interested in the Company the listed selling price is not the true value of the goods represented by the Company's inventory and in many cases is not even the actual price of sale. A deduction is necessary and proper to cover selling costs, overhead expenses, cash discounts, seconds, jobs, depreciation and unearned profits, as well as some other items, particularly the finishing of such goods off looms as still require finishing, dyeing, napping, etc. No one would expect the company to value its inventory at listed selling price without taking proper account of these deductions, nor does any Government expect this. Recognizing this fact the Company took from the listed selling price of its goods a discount, increased from time to time as conditions warranted or made necessary, and this discount had grown to 25% before any question of taxation was involved.

If the Company in its first inventories had valued its goods at listed selling price it would have given to its shareholders a much too optimistic idea of their situation. Companies which carry their inventories or other property at high figures do not really know their true position. They are encouraged to deplete their bank accounts and reserves, to declare more dividends

automatism. This invention does away with
operator. The first, and probably the major
part, of the invention consists of limiting good
and minimizing goods off tools. The second part
consists of goods in process of manufacture. The
third part consists of law machinery.

The first part (limiting goods and in-
cluding goods off tools) was based upon the Com-
pany's existing business for limiting goods.
It is obvious that if the manufacturer has
interference in the Company's existing selling price
is not the time value of the goods remembered by
the Company, a invention and its main cause is not
a demand for a demand for sale. A demand for
necessity and proper to cover selling costs, over-

head expenses, cash disbursements, seconds, losses,
deficiencies and manufacturing profits, as well as some
other items, automatically the limitation
of goods off tools as selling limitation, leaving
no one money except the company to
marketing, etc. As a result of this
invention it is a invention of selling price without
leaving proper account of these deficiencies, nor does
the government except this. Recognizing this fact
the Company took from the time of its goods
from the market, increased from a above
as conditions warranting or made necessary,
and this
explanation was given.

If the Company in its first invention
has selling price to goods at below
most money for
obtaining. Company
which certa. nly inventories or other property
at high figures do not less than their
position. They are moreover of higher
quality than those which have been
used before.

and to spend more money than is reasonable.

If their inventory suddenly declines in value or if they suffer any other substantial loss they are apt to find themselves on the verge of ruin if not in actual bankruptcy.

The necessity of the discount is beyond dispute. The proper rate of the discount is a matter of opinion. The Company took the stand at all times that an ample rate of discount should be taken and the inventory valued at conservative figures. If the discount has grown since 1916 it is because unprecedented situations have arisen since that time requiring a greater caution in the conduct of business than in previous times.

Raw material was taken at a basic figure, in recent years five cents a pound, a figure which has been reached and even passed in the history of the Company. For instance, in June, 1932, cotton sold at 4.91 cents a pound, and in December, 1914, the laid-down cost at the mills of this Company, freight (a serious item) included, was as low as 5.96 cents. Goods in process of manufacture were valued naturally by a combination of both methods.

There is nothing in the Company's system which can possibly reduce the amount of its income tax. An estimate of the value of any company's goods, taken before they have been disposed of, is only provisional. It is at the best a guess made by the Company's officers. Three cases only can arise. First, the estimate agrees with the ideas of the Government Inspector exactly, in which case there is no dispute. Second, the Company's valuation is higher than that of the Government Inspector. As a result the Company is shown as having a more

and of some more money paid to lessors.
It will however affectually decrease in value
of it they suffer any other unanticipated loss
than the cost of living expenses or the value
of which it has in itself pecuniary value.
The necessity of the discount is
based on this rate. The proper rate of the dis-
count is a matter of opinion. The Company
took the average of all times that an average rate
of discount should be taken and the financial
value of conservative figures. It the discount
was known since it is because multitudinous
difficulties exist since first time recording
a greater portion in the conduct of business than
in previous times.

Now majority was taken at a point in time
in recent years five cents a pound, with
the need record and even based on the majority of
the Company. For instance, in June, 1928, cotton
sold at 4.81 cents a pound, and in December, 1934,
the liquid-gum cost of the miles of this Company,
as far as far as (a certain item) including, was
2.66 cents. Goods to process of manufacture were
assigned necessarily a compensation of forty millions.
There is nothing in the Company's history
which can possibly reduce the amount of its income
less. An estimate of the value of the Company's
cotton before they had need record of it, is only pro-
visional. If it is at the best a guess made by the
Company's officers. Three cases only can arise.
First, the estimate agrees with the idea of the
Government Inspector except, in which case there
is no dispute. Second, the Company's valuation is
higher than that of the Government Inspector. A
result the Company is shown as having a more

profitable year than the Government says it has had and to that extent the Company according to the Government's view overpays its income tax for that year. But any such over-payment is immediately corrected as soon as the goods are disposed of in the following business period. If they have been valued at too high a rate by the Company its profit in the next period is diminished by exactly the amount of the previous over-valuation and a lower income tax is paid.

The third case is that of the Company's valuation being lower than that approved by the Income Tax Department. In this case the Company appears for that year as having had a less profitable year than the Government says it has had. It pays less income tax than is claimed by the Department. But here again any defect is corrected immediately in the next business period. When the low valued goods are sold the difference between their inventory value and the sale price is higher than it would have been by exactly the amount of the Company's under-valuation in the previous period. In all cases as the goods in the inventory are turned over their price is received including all the profits the Company is making and these profits are immediately taxed. Not a cent of income tax is avoided by this system which was in force before the income tax was even thought of. Whatever may be the rate of discount from listed selling price, whether it be high or low, the only question at issue is this, - At what time shall the tax be paid? Shall it be paid before the goods in the inventory are turned over (when the profit is a matter of guess work) or shall it be paid when the goods have been sold and when the profit

politicape also turn the Government as a if
we may say so to first extend the Company second-
ing to the Government's own overbasas it is in-
come tax top first last. But such much over-
payment is immediately corrected as soon as the
goods are dispatched to the following purpose
dig it need not even need to pay right
before. If they have need even at too right
a rate by the Company it is the next
before to pay except it is limited by amount of the
behaviors over-valuation and a lower income tax
is big.

The third case is that of the Company,
valuation paying lower than allowed by the
income Tax Department. In this case the Company
abuses for first last as having had a fees before
basis fees income tax from its claiming of the Dept-
ment. But here again the object is not needed the
method to the next payment benefit. After the for
valuing goods the only difference between them
invention value and the same price is higher than
it would have been if the amount of the
Company, a under-valuation in the behaviors before.
In this case as the goods in the inventory are turned
over their price to receive payment it is the profit
the Company is making and those profits the
taxes. Not a cent of income tax is paid.
lastly which was in force before the income tax was
paid never may be the rate of dis-
count from fifteen billion price, whether it is high
or low, the only deduction is this - At
this is it will be paid if the same time spent if the
same time spent over (which
the profit is a matter of base work) or spent if the
best when the goods have been sold and when the profit

is exactly ascertained? All that the Company has done is to follow the second of these alternatives, and we submit that its actions in this respect are sound, both from a business and from a legal point of view. Nothing in the Income War Tax Act calls upon the taxpayer to pay a tax on profits before they have been received by the taxpayer. The facts of the case are that the Company has declared all its profits as soon as they were actually made and has paid income tax on all its profits when made without any reserve or concealment.

The Company's system does not differ from that followed by a doctor or any other professional man. A doctor does not consider that he has made a profit when he has treated a patient. He considers that he has made a profit when he has received his fee, and he then declares it as his income and pays his tax upon it. No one has challenged a doctor's right to pay his tax on this natural and proper basis and all that the Company demands is that it shall have the same right.

The Company's inventory records have been carefully kept, neatly written in the early days, typewritten later, priced as above stated, and at the bottom of each page of these lists the discount was clearly shown. The inventories were initialled by the General Manager or some other official of the Company and by the Company's auditor.

Nothing could be further from the fact than to speak of these discounts as hidden reserves. There was nothing hidden about them and they are not reserves. When this Commission was appointed the Company's auditor was suffering from a fatal illness and Mr. C. B. Brown of Ritchie, Brown & Company, Chartered Accountant, was engaged to complete the

Chartered Accountant, was engaged to compile the and Mr. G. B. Brown of Rięgels, Brown & Combs, a solicitor who had been engaged to represent the company. Mr. P. J. O'Brien, a solicitor, was engaged to act as counsel for the plaintiff. There was nothing hidden about this trial and it was a case of sheer greed discolored as hidden reserves.

questionnaire prepared by the Commission's experts and all the Company's books were open to him for that purpose. He furnished the Commission with all possible information regarding the Company's operations during the last twenty years, including full particulars of all discounts taken on inventories, as called for on the Commission's Form headed Raw Material and Inventory Data, and the evidence clearly shows that this information was apparent, and far from being hidden was obtainable on the most casual inspection. The company's return was filed long before any officer of the company had been examined by the Commission. The Company has hidden nothing.

Nor is it correct to speak of this discount as a reserve. No amount was ever set up as a reserve or in any way appropriated from the funds of the Company for this purpose. To suggest that the Company has in its hands a secret fund of some two million dollars is to create an altogether wrong impression of its resources. A discount reaching at times to that amount has been properly shown according to sound business methods upon the Company's inventories, deducted from the value of raw material and finished and unfinished goods in the Company's hands. But this discount is not cash in the Company's hands at all. For purposes of illustration - If the Company has goods on hand which it will try to sell for approximately Four million dollars, and if it values these goods for the purposes of its statement at Two million dollars, all that it has in its hands is goods of uncertain cash value. It has not by this valuation created any additional wealth. No reserve fund whatever has been created.

It should be noted that the total amount of the discounts is not an amount to which additions are made year by year as in the case of a reserve. If the Company's inventory increases, the rate of

If the Company's inventory increases, the rate of
the same year by year as in the case of a reserve.
The purpose of this adjustment is to measure the
losses or gains made in the course of the year.
The amount of loss or gain is determined by
the difference between the cost of goods sold
and the cost of goods available for sale.
The cost of goods available for sale is the sum
of the beginning balance plus purchases made
during the year less the cost of goods sold.
The cost of goods sold is the sum of the cost
of goods purchased and the cost of goods
manufactured during the year.
The cost of goods manufactured is the sum
of the cost of direct materials, direct labor,
and manufacturing overhead.
The cost of direct materials is the sum of the
cost of raw materials used in production
plus the cost of purchased materials.
The cost of direct labor is the sum of the
wages and salaries paid to production
workers plus the cost of benefits provided
to them.
The cost of manufacturing overhead is the
sum of the costs of indirect materials, indirect
labor, and other expenses related to
the production process.
The cost of goods available for sale is the
sum of the cost of goods purchased plus
the cost of goods manufactured plus
the cost of goods sold.
The cost of goods sold is the sum of the
cost of goods purchased plus the cost of
goods manufactured plus the cost of
goods sold.

discount remaining the same, the amount of the discount naturally increases, and similarly it goes down again as accumulated stocks are disposed of. The amount of the discount was actually smaller by some \$ 35,000.00 on March 31st, 1936, than it was in 1920, and on September 30th, 1936, it was smaller by about \$533,000.00, as a result of the company's increased sales.

C. WERE THE DISCOUNTS DISCLOSED TO THE GOVERNMENT?

In the first place if anyone is disposed to be critical of any company by reason of the fact that some of its earlier returns are not now considered full enough from an exacting legal standard, it must be borne in mind that when the Income Tax Act first came into force it was natural to expect a certain amount of uncertainty and confusion in the minds of those who were called on to fill out income tax returns. It has taken many years for a generation to grow up accustomed to the filling of forms which is now becoming a feature of our daily life, but which was practically unknown before the war when governments limited themselves to comparatively modest activities not requiring the multiplicity of forms now in use. Even at this date comparatively few business men, and not very many attorneys, have developed any conspicuous ability in the filling out of income tax returns and they are obliged to enlist the services of accountants and specialists in these matters. We submit that the forms filled out by the taxpayer, and certainly those in the early stages of the administration of a new and complicated statute, have to be considered with due regard to human imperfections, and that viewed in a reasonable

light it will be found that this company's returns gave a sufficient information to permit the Department to assess and collect any tax which might be fairly due, and, in particular, sufficiently disclosed the company's method of taking discounts from its inventories.

The correspondence filed with this Commission shows that in the year 1920 Canadian Cottons, Limited had retained tax experts who discussed the company's returns minutely with the late Mr. R. W. Breadner, the Commissioner of Taxation at that time, and who reached an adjustment with him after a long correspondence and many interviews.

The first returns required by the Government contained the following certificate of inventories:

" I , the
of the Company, making this return, do
hereby certify that the inventories in-
cluded in the above schedule were taken
on a basis and do not
contain any allowance for shrinkage or
decline in value other than as follows: "

It will be seen that a very short blank was left in the above form to insert the basis on which the company's inventories were taken. The blank was a line two inches long.

From the year 1921, the first year in which the Company was taxable under the Income War Tax Act, until 1925 inclusive, and up to the time of that officer's death, these returns were completed by Mr. Alex. Bruce, the Company's Secretary-Treasurer. In some cases through an oversight he did not sign the certificate of inventories, but in all cases he referred to the inventories as being taken on

11
This is will be longest part of this company's
return base a sufficient information to
permit the Department of Justice and Office of
Taxation might be fairly one, may, in
particular, sufficiently disclose the com-
pany's method of taking disbursements from the
company.

The correspondence left with this
Commission shows that in the year 1920 Comptroller
Goffman, limited had received tax exchequer who
discovered the company's return minutely with
the late Mr. R. W. Bradburn, the Comptroller
of taxation at that time, and who responded to
a statement with him after a long correspondence
and many interviews.

The first return by the
Government containing the following certificate
of importers:

12
of the Company, making this return, do
hereby certify that the returns were taken
on a
constant and sufficient for security or
debtors in value as follows:
It will be seen that a very short
time was left in the space for making the
return on which the company's importers were
named. The return was a list of importers.
From the last, the first part
of which the Company was liable under the
income Tax Act, until 1922 inclusive, and
each of the time of part officer, a debt, pre-
ferred were completed by Mr. Alex. Price, the
Company's Secretary-Treasurer. In some cases
thereupon an overstatement was made to the com-
missioner of importers, but in all cases he
left them on

13
in which the Company was liable under the
income Tax Act, until 1922 inclusive, and
each of the time of part officer, a debt, pre-
ferred were completed by Mr. Alex. Price, the
Company's Secretary-Treasurer. In some cases
thereupon an overstatement was made to the com-
missioner of importers, but in all cases he
left them on

a cost or market basis. The space provided on the Government forms in which these words were filled in was just sufficient for him to write the words "cost or market", and it must have been evident to him that a very summary indication only of the method of inventory was all that was required. In view of the fact that the inventories are based on a combination of cost and of listed selling price, less certain discounts and deductions, Mr. Bruce's statement was such as anyone would consider appropriate. He made no observations as to any allowance as to shrinkage or decline in value, and properly so, because the discounts and allowances were not at any time specifically taken to cover shrinkage or decline in value, but covered a large number of items above referred to. Any company officer might well consider the returns in this respect sufficient, particularly if, as we submit, he knew precisely the extent of the supplementary verbal information he was giving to the Department's inspectors in the regular course of their customary investigations.

In the year 1926 Mr. Bruce died and the certificate of inventories was not even completed.

In the years 1927 to 1932 the company's returns stated that the inventory was taken on a cost basis, less a deduction summarily described as "usual", except in 1930 when by a purely clerical error the company failed to fill in this part of the return. In as much as the listed selling price which forms the basis of the major part of the inventory is not necessarily a market value, but is simply the price at which goods are offered, and is built up from cost

- 11 -

the cost of market price. The basic principle
now is that Government forms of major taxes would
have little if any effect on market price if
they did not affect "cost of market", says the man
who has been alive since the first a very summarily
indication only of the movement was
lost to him in .
It was just as well as
that the compensation was based on a
of cost and of selling price, less cer-
tainly than any deduction, Mr. Bruce,
as far as money considerations were concerned
as those on the same basis
and probably so, because the discounts
of time have not at the same time been
covered sufficiently or easily, but covered
large number of items above mentioned to
busa officer might well consider the letter in this
respect sufficient, but it is not
the extent of the discounts
available information he was giving to the Department,
inquiries to the higher course of their authority.

.

In the last 1926 Mr. Bruce did say the
certificates of insurance was not even considered.
In the last 1925 of 1925 the company's
refuses asking first the insurance was taken on a
cost price, less a deduction summarily described
as "market", except in 1920 when it a definitely different
time company took first of this kind of return.
It is as much as the selling price which forms
the basis of the major part of the insurance is not
necessarily a market value, but it is simply the price
of which goods are offered, and it is from cost

price, it bears a distinct relation to the cost and is accurately stated to be on a cost basis." The material point about the returns from 1927 onwards is that they now disclose completely that the company is deducting an allowance from its inventory which it refers to summarily as "usual".

On the 1st of October, 1932, the Department of National Revenue for the first time issued a ruling requiring inventories to be taken at cost or market price. It is to be noted that the Income Tax Act itself makes no such requirement and we submit this ruling is distinctly open to question. Department regulations cannot add anything to the tax imposed by Parliament.

In 1933 for the first time the income tax return asked, in accordance with the above ruling, three specific questions with reference to inventories, and from that time to date the returns were filled out as follows:

Question: "Were inventories taken (a) at cost price?

Answer : At cost or list.

Question: "Were inventories taken (b) at market value?

Answer :

Question: "If not, on what basis?

Answer : Less usual discounts."

Even if any errors were made in the wording of the inventory certificate for some of the previous years, and this is not admitted, the attention of the taxing authorities was squarely drawn to the company's discounts by the returns from 1927 and the reference to "usual discounts". The very generality of the words used was such as to invite inquiry.

piece, if based on a distribution of the
cost of production of each company in
the market. The market price would
then be the sum of the individual
company costs plus a profit margin.

If reference is made to the year 1932, the
Department of Statistics has "industry" as

the term used for the first time to denote
a unit of production. It is to be
noted that the Income Tax Act itself makes no
such definition and we must take it
as given by the Department of Statistics.

It is also to be noted that the tax imposed
on a business is not the same as the

In 1932 for the first time the income

tax return was filed in accordance with the
law, there being no correspondence to
that effect in the letters from the
Revenue Commissioners, and the following
was written out as follows:

Question: "What is meant by (a) the cost of
..... : Answer : At cost or fair.

..... : Answer :

Question: "If not on market price?"

Answer : Less than discount.

Now it shall be made in the words

of the Revenue Commissioners for some of the
points mentioned above. The following
is a copy of the letter from the Revenue
Commissioners dated 20th January 1933 and
refers to the question of "market price".

It is clearly established that there is a very wide diversity in methods of dealing with inventories, both from the evidence made before this Commission, and the mass of literature that exists on this subject, which has been discussed ad infinitum both within and without Government circles. It is at least fair to presume, as Mr. Dawson did in giving evidence, that the Income Tax Department, through its inspectors, gave due consideration to the statement of usual discounts above referred to, and made sufficient inquiries regarding the methods adopted in the taking of inventories for the purpose of making its assessments. Certainly, the management of the company was left under the impression that the company's returns and methods were entirely satisfactory to the Department.

In this connection it is significant that in the 1921, 1926 and 1930 statements the Company's officers inadvertently omitted to fill in the paragraph regarding inventories, and that, nevertheless, this omission was at no time challenged by the Department. It must be presumed that the Department's inspectors satisfied themselves with reference to this item in order to make their assessment for those years.

Further, it will be noted that the returns for the years 1924, 1926 and 1927 were the subject of adjustments with the Income Tax Department involving items amounting to a million and a half dollars charged to operations by the company but ultimately disallowed by the Department. To arrive at this adjustment an inspection of the company's books was surely required and made.

If it is clearly established that there
is a very wide diversity in methods of besti-
tiation among the inventories, both from the evidence
made before the City Commission, and the mass of
literature that exists on this subject, which
was then discredited by testimony both written and
written before the first Select Committee. If it is
admitted that the Income Tax Department, through its
tributaries, base the consideration of the state-
ment of many districts upon letters addressed to
the authorities regarding the methods
adopted in the carrying out of the functions of the
Department of Revenue if the assessment. Certainly,
the message of the company was left under the
impression that the company, a letter and message
were entirely sufficient to the Department.
In this connection it is significant that in
the last, 1886 and 1880 statement the "Gombska" office
comes invariably omitted to fill in the bars.
Early regarding inventories, and first, nevertheless,
this omission was at no time challenged by the
Department. If what is presented here is the De-
partment's tributaries assuring themselves with
reference to this item in order to make their
assessment for those years.
However, if will be noted that the reference
to the last 1884, 1886 and 1880 were the subject
of adjustments with the Income Tax Department in
volving items amounting to a million and a half
dollars arising to operations by the company part
entirely disallowed by the Department. To
survive at this adjustment on the basis of the
company, a book was itself rendered void.

It is true that these adjustments affected charges for maintenance of buildings and plant, but it is impossible to assume that the inspectors who challenged the company's figures in one department and proceeded to make a careful and independent investigation and assessment would simply have shut their eyes to the company's statement of usual discounts in dealing with its inventories, which play just as important a part in the determination of a company's profits. It is equally impossible to assume that the inspectors who were carefully revising the company's assessment would have allowed the omissions to fill in the paragraph dealing with inventories to go unchallenged in the years in which these occurred. If this was not dealt with by letter, it was surely because it had been dealt with otherwise, to the Department's satisfaction. The overwhelming presumption that disclosure must have been made is strengthened by the fact that this company has at no time had anything to conceal from any Government Department and its dealings with the Government have always been recognized as fair and above-board. The Commissioner of Taxation in giving his evidence stated to the Commission that his inspectors had never had any difficulty in obtaining any information they requested from Canadian Cottons, Limited. It is not, therefore, to be lightly presumed that a taxpayer of this standing is failing to disclose essential information to a Government Department. It would, in fact, be impossible to find a motive for any concealment by any one of the persons involved in making the company's returns.

During the period of the Income and

If at this time there were any movement to increase
charges for manufacture of munitions and
therefore for manufacture of same first
of course it would be difficult to do so without
figures in one department and proceeding to
make a certain number of investigations
and assessment would simply base such part
of sales of the company, a statement of many disbursements
in dealing with its manufacturers, which may be just
as important as itself in determining to a
company's position. If it is desirable
to assess same first the companies who were certifying
the company's a assessment would even
be necessary. This would be done by
assessing the companies of 1911 in the best possible
way. It may be necessary to do this in
the case of Mr. H. P. Jeffers, if he was himself per-
sonal to the best of his knowledge of the
case it may need careful with opposition.
Department, a statement of
assessment that dislocatable may have been made
as a result of loss of this company per-
sonal to him from the
Government Department and its dealing with the
Government have always been recordable as first
and spouse-posting. The Commissioner of Taxation
in giving his evidence stated to the Commission
that his traders had never had any difficulty
in obtaining any information they desired from
Government departments, that is, if they did not, probably
to be fifty percent more than a taxpayer to find
satisfactory in this regard. If nothing, it
now to a Government Department. If nothing, it
now to be impossible to find a motive for such
concealment as the persons involved
to manage the company's affairs.

Business Profits Tax Acts, three representatives of the Company have discussed its statements with the taxing authorities, Mr. John Miller, accountant and auditor, of Toronto, Mr. Alex Bruce, Secretary-Treasurer of the company until his death in 1926, and Mr. C. W. Baker of Baker, Birnie and Company, Montreal, Chartered Accountants. None of these men could have benefited personally by withholding any information as to the methods followed by the Company in valuing inventories, and their personal reputation was above reproach. As far as the Company has been able to discover to date, no one else in connection with the Company has been interviewed by the officers of the Income Tax Department. Unfortunately these three men are all dead, Mr. Baker having died during the sittings of the Commission in September, 1936, after an illness of several months, and, therefore, under these circumstances the Company, being unable to make direct proof, submits that it is fairly entitled to rely on the reasonable presumption that sufficient and satisfactory disclosure has been made to the Government. We have not the slightest doubt that if these men had been available they would have given the Commission a clear and convincing explanation.

We submit that the unfairness of making an exhaustive examination of a company's records, or indeed those of any person, long after the death of the persons having knowledge of the facts, is so repugnant to the most elementary principles of justice as to require no further discussion. Surely after ten or even five years it should be possible for the Government to complete its investigations and to

close its records.

D. CONSIDERATIONS IN FAVOUR OF COMPANY'S SYSTEM.

Throughout the inquiry both the Commissioner and Counsel for the Commission repeatedly remarked that their criticism was not addressed to the Company's system but solely to the Company's alleged failure to disclose the discounts. We may therefore assume that the business policy of the company as regards conservative valuation of inventories meets with the Commission's approval, but in order to assist the Commission in making its relevant findings, particularly with regard to the maintenance of stable labour conditions, we propose to discuss briefly some of the effects of the company's accounting methods.

1. In reference to employees. It is this company's view that in the operation of a business the shareholders, who are its owners, should give the employees fair consideration in every respect. In the words of the Order-in-Council creating the Commission, the company has recognized its responsibility to carry on its operations with due regard to its obligations to its employees and the public, and not to arbitrarily shut down its plants. In accordance with this belief the company has sought to the best of its capacity to maintain employment during years of depression. The Company has continued to manufacture and to accumulate finished goods often without knowing when these products would be sold or what price they would fetch. If a different policy had been followed, a distressing unemployment situation

choose its record.

D. CONSIDERATIONS IN FAVOR OF COMPANY'S SYSTEM.

Throughout the industrial policy the
Commissioner and General for the Commission
repeatedly demanded that strict classification was
not applicable to the Company's system but
should be applied to the Company's affiliated
organizations. We were therefore
desirous the government
assume first the function of the com-
pany as regards commercialization of
its affiliated members with the Commission
bounty, put in order to satisfy the Commission
in making its relevant findings, particularly
with regard to the maintenance of safety equipment
and fittings, we propose to discuss briefly some
of the effects of the company's coordinating
measures.

I. In reference to employees. It is first
company's view that in the operation of a business
the shareholders, who are the owners, should give
the employee first consideration in every respect.
In the words of the Order-in-Omnibus creating the
Commission, the company has recognized the
responsibility to carry on its operations with
due regard to its employees and to
and the public, and not to stipulate such down-
payments with this particular firm in
its business. In accordance with this policy
company has sought to the best of its capacity
to maintain employment during years of depression.
The company has continued to manufacture and to
communicate timely good offices to
when these products would be sold at market price
they would not be able to sell a
following statement is interesting, a bewil-

would have resulted and the Government's expenditure for relief would have been greatly increased. The Government statistics show that in Cornwall, where the company operates three mills, and in Milltown and Marysville, N.B. where the only industries are those of Canadian Cottons, Limited, there have been fewer people on relief in the last seven years than in almost any other centres in the Dominion, and it is submitted that this was due to the company's policy of maintaining stability in production.

Again, during the war years it was apparent to all discerning persons that the coming of peace would be followed by a rapid fall in prices, and it would have been little short of folly for a company to value its inventory at the inflated market prices of the war years, especially in the case of textile companies exposed to violent fluctuations in the price of raw cotton. In 1920 the company lost approximately \$1,400,000 by a drop in inventory values. Raw cotton dropped from forty-three to eleven cents a pound in the course of a few months. Had it not been for the conservative valuations made prior to that year the company could not have met the loss. It would have found itself in the hands of its bankers and, indeed, would have faced liquidation, and more than 3,000 operatives with their dependents would have been exposed to unemployment at a time when relief facilities were as yet undeveloped. The way in which Canadian industry in general, and this in-

money have been laid aside by the Government's
expenditure for relief money have been
appropriated by the Government. The Government
estimates show that in Cornwall, where
the company operates three mills, and in
Mifflinburg and Mifflintown, N.B. where the only
industries are those of Canadian Cotton,
timbered, there have been fewer people on
relief in the last seven years than in all
most any other counties in the Dominion, and
most of the companies in the country are so
busy a body of men is supporting the
population.

Again, during the war, there was
absolutely no ill-discriminating between
coming to base money to follow up a raid
that in bridges, and if money had been given
to the same to assist a company to stay
enough at the railway station which
was lost, especially in the case of textile
companies engaged in various industries in
the price of raw cotton. In 1920 the company
lost approximately \$1,400,000 in a raid by
invaders avatars. Raw cotton dropped from
forty-five to eleven cents in the
course of a few months. Had it not been for
the conservative adjustments made prior to past
year the company would not have met the loss.
If money had come along instead of the
surkates and, indeed, money had been taken off
duties, and more than 3,000 operatives with
their dependents would have been exposed to
unemployment at a time when relief possibilities
were as yet undeveloped. The war in itself
- in this and many others - and this in

dustry in particular, adapted itself to post-war dislocation certainly saved the taxpayer the cost of several years of unemployment relief. This experience amply justified the adoption of the company's policy and its continuation to the present time.

By maintaining stable conditions the company has also maintained the morale of its workers and their dependents by providing employment instead of exposing them to the humiliation of relief and the demoralization of idleness.

These results were only made possible because the company, relying on the correctness and acceptability of its returns to the Government, could assume the risk of manufacturing and piling up stock for which there was no immediate demand.... It is vital to national well-being that nothing should be done to discourage employers of labour from assuming such risks. We submit that if the system followed by this company is allowable, its employees can face a depression with confidence, but if the company cannot make suitable provision for such situations by carrying ample discounts from its inventories, it cannot be expected to take the risk of continuing to manufacture goods for a falling market.

The Government has always recognized the principle of avoiding the taxation of insurance. But here is insurance against national disaster which has twice in recent years proved its value, and the suggestion is made by Commission Counsel that any such provision must be in the form of a special fund, saved up for that

The Government has always been
-at the disposal of the public to effect
any purpose. But there is no
dissatisfaction which has made a Govt.
-the aversion, and the suggestion is made by
the Government that such a proposal must be
left to the best, and it is to be left to the
Commissioner of Customs to take

purpose by the company out of its tax-paid profits, retained from its shareholders and directly labelled as a reserve. Not only would it be difficult in many companies to get the shareholders to make such a saving, but the company would be exposed to the possible payment of income tax on the value of goods manufactured in excess of the company's wants before the profit or loss on these goods has been ascertained. The obvious result of any such system will be to discourage manufacturing in excess of a company's immediate requirements with consequent curtailment of work and greatly increased unemployment in any time of depression. The taxpayer, through relief, will bear a greater part of the burden formerly carried by industry and the industry on its part will avoid all possible question of income tax.

A word as to the company's wages. One reduction only was made throughout the most trying years of our industrial history, and this reduction was only 10%. At the end of a year 5% was restored, and during 1936 wages were restored to the full 1929 level.

It is interesting to note the fluctuations in the cost of living during the same period. The index of the cost of living reached its record high of 129 in the first half of 1920, dropped to 100 in the middle of 1922, remained fairly stable till January, 1930, when it stood at 102.1, then slipped down to the low point of 76.6 in 1933, and has now risen to 81.9 for September, 1936, the latest figure we have seen at the time of preparing this Brief.

purpose of the company out of the tax-paying
public, resulting from the shareholders being
directly supplied as a revenue. Not only
would it be difficult to make companies to
get the shareholders to make such a saving.

But the company would be exposed to the
possibility because of tax on the value
of goods manufactured by the company
unless passed on loss or gain on these goods
was paid to the proprietor. The operation
was then satisfactory.

It is now necessary to discuss the
manufacturing in excess of a company's in-
ability to compete with companies which
make to work and directly manufacture
the goods themselves. The manufacturer,
however, will pass a larger part of the burden
of taxation by increasing his prices to
the public. This will be based on the
amount of tax paid.

A word as to the company's wages.

The combination out of wage triangulation the most
training basis of our industrial history, and this
combination was only 10%. At the end of a year
was restored, and during 1936 wages were restored
to the full 1933 level.

If it is interesting to note of the information
that the cost of living during the same period.
The index of the cost of living during this
period increased from 100 in 1930, dropping to 111
in 1931, falling to 108.1, then rising to 109.1, then falling
again to 108.3, and was won
again to 108.6 in 1936, the latest figure
was never seen at the time of preparing this brief.

While the cost of living was going down rapidly the company maintained wages until 1933, when it made a 10% cut, at a time when the cost of living had been reduced by over 25%. The Company's employees are today receiving the same wages as in 1929, although the cost of living is still shown, according to the Dominion statistics, as 20% lower.

Certain exhibits have been filed showing hourly and weekly wages paid to employees. When these exhibits were filed in Cornwall, Commission Counsel, upon being requested by the company's Counsel so to do, made at the same time a declaration showing the basis on which these figures had been made. Such a declaration does not accompany the exhibits filed by the Commission showing the company's wages at other points. It is necessary to qualify the weekly returns of wages paid by the company by pointing out that they covered one pay-roll only, that if an employee was absent for part of the week he was taken as receiving correspondingly small wages, and that as the mills were then to some extent working on short time the return is naturally different from what it would be in a week of full time employment. The company has taken the very proper stand that when complete work is not available for all it is preferable to distribute employment among as many as possible rather than to continue a smaller number of employees on full time. This policy has met with general approval and has been followed in many other industries.

With the cost of living was going

down rapidly the company maintained wages until
1933, when it made a 10% cut, at a time when the
cost of living had gone up about 20%.
Gomberg, a employee was receiving the same
wages as in 1933, although the cost of living is
still going according to the Dominion statistics
as 20% lower.

-work being exhibited have been lifted away
the majority and weekly wages being to employees.
Men please exhibits were lifted to Community, Com-
mission Council, labor being released by the com-
pany, a Council so far as to do, wage at the same time a
question, how much of the exhibit
is necessary to be paid to the Commission
not exceeding the exhibition goes
showing the company's wages of other points. If
is necessary to display the weekly return of wages
paid by the company for putting out the first they
covered one day only, that is an employee was
spend for part of the week he was taken as re-
turn of the week, the rest of the week he was
not entitled to receive anything.
The mill were sent to some extent working on
short time the return is necessarily different
from what if money is in a week to full time
employee. The company has taken the extra
proper standing that when company work is not
available for all it is preferable to discharge
employment some as much as possible longer than
to continue a smaller number of employees on
full time. This policy has met with general
support and has been followed in many other
industries.

2. THE SHAREHOLDERS. Not a single shareholder of the company has complained of this business having been conservatively managed. Not one complaint has been received from shareholders with reference to the discounts taken from inventories. On the contrary, a great number of shareholders have expressed their appreciation of the fact that for the past twenty years, with the exception of $3\frac{1}{2}$ years when no dividends were paid on the common stock of the company, both preferred and common dividends were paid with regularity, a result which would have been clearly impossible without a policy of stability. Stability is what the shareholders are continually and properly looking for, and we are satisfied that the company's shareholders are practically unanimous in their support of the stocktaking methods followed by the company since its inception. A contrary policy of violent fluctuations might well suit the speculator, but this is not the type of shareholder that can be considered desirable for a company, from the broad national point of view, or indeed from any other.

3. THE CUSTOMER. The Company has followed a policy of protecting its customers against losses on goods due to a fall in prices, a very frequent situation in the textile trade. In 1920 cancellations of orders were accepted amounting to approximately \$2,268,000.00. Had the company been forced into liquidation by being unprepared for the situation that arose in that year, a liquidator would have been bound to exercise the company's clear legal rights, and many converters, wholesalers and retailers would in turn have been forced into

S. THE SHAREHOLDERS.

shareholders of the company has complained of
this practice having been conservative
because there was need less money.
Not one complaint has been received from shareholders with reference to the size
of the shares taken from inventories. On the con-
trary, a great number of shareholders have
expressed their dissatisfaction to the fact that
for the best current assets, with the exception
of 3½ years were being held on the books of the
company a stock of the company, often referred to
as current assets were being held with regularity,
resulting which would have been clearly impossible
without a policy of expediency. Shareholders
have also complained that the company has
been, a shareholder who has been following
their support to the stock-taking meetings
by the company since its incorporation.
A contrary view is held by those who
believe that the company might well have
been able to do so if it had been
possible for a company to be organized
from the broadest possible point of view,
but as a general rule a company
is compelled to do so if it is to
have a large number of shareholders
and it is very difficult to sell
shares to a large number of shareholders
without a considerable loss.

S. THE CUSTOMER.

The company has followed a policy of protecting its customers against losses
on goods due to the fact that it is a
firm in the textile trade. In 1920 cancellation
of contracts was succeeded in amounting to
\$8,862,000.00. Had the company been forced into
liquidation for the payment number of
orders were secured amounting to \$15,000.
This figure, and many counterparties, who皎stors and re-
ceivers would in turn have been forced into

liquidation. In this way, again, this company made a distinct contribution to the saving of the country from the effects of post-war dislocation, and we submit that it was only able to assist its customers at this time because of the policy it had adopted of setting up proper reserves and of placing conservative values upon its inventory. Here again the contrary policy would have meant ruin to all concerned, as the company could not have afforded to accept cancellations of orders had it not valued its goods on the conservative basis indicated above.

In this connection it should be noted that in recent years the manufacturer has been obliged to carry a larger inventory than might at times have been normal, due to the hand-to-mouth buying of his customers. In previous times wholesalers carried large stocks for the service of the retail trade. The manufacturer in recent years has, on account of his greater resources, been left to perform the duty of the wholesaler to a very substantial extent. He is now forced to carry the stocks and accept the risk of so doing, and, as we have already submitted, he can only do so if he is allowed to carry them at a value which will not involve him in possibilities of serious loss. The manufacturer is entitled to be a manufacturer, and not a speculator.

4. THE CONSUMER. We submit that the consumer is benefited by any system or policy which permits a manufacturer to produce under stable conditions. It has repeatedly been shown that any temporary gain a customer can make as a result of goods being thrown on the market, cut-throat competition, and the like

THE CONSUMER.

consumer is permitted by the system to buy
what he wants as a manufacturer of products makes
need available. This is called a free market or
an open market being a customer can buy
what he wants without paying a higher price than
the cost of production.

conditions, is quickly taken away as such conditions inevitably lead to a subsequent increase in prices.

Moreover, modern business life is so inter-related that if the manufacturer or the employee in any important industry are effected, the consumer soon feels the results in his capacity as a wage earner, and his interest is clearly to maintain general stability in business conditions.

It may be noted that in the fiscal year ending March 31st, 1936, the company earned from the consumer an average of $1\frac{1}{2}\%$ on its entire turn-over, surely not an undue burden for the maintenance of this enterprise.

5. THE GOVERNMENT. In the first place the company's method is one which makes for easy Government inspection. Of all the many methods of taking inventories it is the easiest to check. By taking inventories at listed selling prices, less a discount, Auditors and Income Tax Inspectors have only to ask for a copy of the price list at which the goods in stock are being offered for sale. Naturally the company tries to get as much as it can for its goods and hence these list prices are in the usual case the best to use as a basis for taxation purposes. After the inventory has been checked it is only necessary for the manufacturer and the Income Tax Department to agree upon what discount shall be allowed on listed selling prices to take care of the various charges above referred to. If hit and miss methods are followed in the taking of inventories no Auditor or Government Inspector can obtain an adequate idea of the value of the inventory that is submitted to him. It would be physically

conditions, if distinctly better such as now
conditions inventively lead to a rapidened
increase in prices.

Moreover, modern practice often
is so inter-related that it is difficult to
see the employee in the important industry who
is not affected, the consumer soon feels the results
in his pocket as a wage earner, and this
increases to a great extent to
stability in prices conditions.

If may be noted that in the first

last spring when I left, 1936, the company
asked how the consumer an average of 1% on
the entire turn-over, largely not an undue
portion for the maintenance of this organization.

P. THE GOVERNMENT.

complain's method is one which makes for easy
Government inspection. At all the main branches
of taking inventories it is easier to check
by taking samples at trifling price
than a discourt. Auditors and Income Tax Inspectors
have only to ask for a copy of the price list to
make the goods in stock the best record for sale.
Naturally the company tries to get as much as it can
for its goods and none finds trifling price
unless the case is a case of tax evasion or
bullock. After the inventor is paid his
it is only necessary for the manufacturer and the
Income Tax Department to agree upon what discount
exists on selling prices or trifling price
it is better evades some charge of the
kind and misleads the following to
inventories on Auditor of Government Inspector as
well as to audit the accounts of the
playfully. It would be difficult to find a case

impossible to go into the warehouses and examine in detail the goods that appear on the inventory sheets and establish for each an individual valuation. If, in the first place, you take as a basis the price the company is asking for its goods and arrive at a satisfactory discount to bring this down to the fair value of the goods to the company, it is obvious that there can be no method more simple and, at the same time, more likely to be reasonably accurate. By taking the inventory in this manner with a reasonable discount any tendency of taking individual items in the inventory at lower prices than might be justified is removed.

We submit therefore that if the company's policy of taking its inventory is made uniform throughout Canada the Government will be able to save a substantial amount in the cost of inspection.

We submit further that if the sound business methods followed by this company in taking inventory are recognized and made uniform throughout Canada the Income Tax Department can only gain by such a course,- taking into consideration the inevitable repercussions of any contrary policy. Even from a narrow point of view it cannot be to the interest of the taxing authorities that conditions encouraging stability should be abandoned or rendered more difficult. If the discount taken by this company is substantially lowered, it has already been submitted that the company will have much greater difficulty in maintaining continuous employment and in standing behind its customers in times of falling prices.

We submit further that if the company's
present level of sales is to be maintained
in future it must be a case of sales ed illi-
the cost of importation.

Increased bankruptcy and unemployment spread throughout the country can in no conceivable manner result in a sound basis for a good income tax return from the country's taxpayers. Even if it were possible by lowering the company's rate of discount to add to the amount of its taxation during any particular period, it is submitted that the Department in so doing would be taking the narrowest possible point of view, and even if it could derive a comparatively small profit from so doing during such a period, this would be more than offset by a loss from unstable conditions which is not easy to calculate but which is none the less certain.

Again, if the company can carry forward stocks at a conservative figure and therefore hold these in bad times until they can be sold under normal conditions, a profit will result instead of a loss and the Government will get its share of this profit. Here again the Government benefits from the true reactions of the company's policy. If instead of maintaining its inventories the company throws its goods on the market at such a time - as it would be obliged to do if any different policy were followed, this could only result in accentuating the fall of prices, ruining many converters, wholesalers and retailers and inflicting on the Government, and particularly on the Income Tax Department, its share of their loss.

We further submit that in all companies profitable operation depends on the volume of the company's production. The cheapness of mass production is self-evident. Volume of production can be maintained by manufacturing for inventory, as well as for sale, but a company which does not have its in-

Asia, if the company can carry forward
these concessions which it got by estorting
this money to more than its less certain
members could others which it got by estorting
more from so many during such a period,
and never if it could derive a compensation
from the government for the same.
This would bring it more than its less certain
members could others which it got by estorting
more from so many during such a period,
and never if it could derive a compensation
from the government for the same.
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members could others which it got by estorting
more from so many during such a period,
and never if it could derive a compensation
from the government for the same.

stocks at a conservative figure and therefore hold
these in bad times until they can be sold under
normal conditions, a profit will result instead of
a loss and the Government will get the same to this
profit. Here again the Government need not take
the time necessary to the company's benefit. It
instead of waiting for the company to do so it can
do it now as soon as time permits at a good
time if it is offered by the company, this could only result in concentrating
more money, this last to bring, running much conference, more-
over stars and letters and information on the Government,
and distribution on the Income Tax Department, the
same of their loss.

We further submit that if all combinations

ventory protected by conservative valuations could not safely maintain volume of production by manufacturing for inventory. As a result the company's volume of production would drop and the company would not be in a position to produce the taxable profit which should result from the maintenance of an even volume of production.

To illustrate how fair it is to the Government to take all finished goods into stock at listed selling prices less a discount, we attach a record of certain lines of stock goods at listed selling prices when inventory was taken at the close of the last fiscal year, March 31st, 1936. These lists show the style numbers, quantities and prices at which the goods were taken into inventory, the actual price at which they have been offered or sold, and the consequent loss likely to be suffered by the company as a result on the basis of the figures presently available. What these stock lines still on hand will eventually bring no one can tell, but it is evident that most of them will have to be disposed of at a considerable loss. When such goods are taken into inventory at listed selling prices a generous discount must be made thereon, as otherwise income tax would have to be paid upon a transaction that would result in absolute loss to the company. If the unsaleable goods shown on the attached memorandum are eventually disposed of at prices already accepted, or at prices at which they have been offered but as yet have found no buyers, the company faces a loss of over \$140,000.00. This memorandum covers stocks at but two of the seven mills owned or controlled by this company, where the principal losses of this nature have occurred.

During the hearings of the Commission certain purely tentative figures were submitted by the Income Tax Department showing the results of following out a system contrary to that followed by the Company of taking discounts from inventories. For a total of seventeen periods under the Income War Tax Act these figures differed from those of the Company by only about \$200,000.00 and they are open to discussion. According to the present contentions of Commission Counsel there were several years in which the company actually overpaid what was legally due. But these figures do not tell the whole story. It is manifestly unfair to accept such a calculation in an intermediate stage of the depression period, when inventories have been piled up largely in order to maintain employment, without seeing the result of at least one or two periods of substantial recovery. In such a period of recovery the company's goods listed in its inventory are bound to be disposed of to a substantial extent, and the natural tendency is for such disposal to take place at a profit. Instead of carrying these goods in its inventory at a discount value, the company will now be able to turn them into cash. Instead of having in its assets goods carried at their discount value it will have their full realized price of sale. As the company's inventory is reduced the company's profits will, therefore, be correspondingly increased and this is bound to result in a correspondingly higher income tax. Not only is the company bound in such a period to pay to the Government a much larger income tax than it would have done if no discounts had been taken on the goods, but it so happens that the income tax rates have been increased and the Government's direct profit will be to that extent higher.

During the meetings of the Commission

certainly but also participants figures were supplied

by the Income Tax Department showing the results

of following out a system contrary to that followed

by the Comptroller of Banking discounts from inventories.

Not a post to seventeen branches under the Income

Tax Act there figures different from those of

the Comptroller by only about \$200,000 and they are

open to discounting of the present com-

panies of Government were several

years in which the company's accounts were

not settled the case of the Comptroller was

one of the most difficult cases to decide upon.

It is difficult to settle a

branch need even though when inventories have been

settled in order of ministerial importance, and if they are not settled in order of ministerial importance, it is difficult to settle a

case of the Comptroller is one of the most difficult cases to decide upon.

Instead of certifying these goods to the Comptroller

company, a good method is to let the Comptroller the

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company, a good method is to let the Comptroller the

branch need even though when inventories have been

settled in order of ministerial importance, it is difficult to settle a

case of the Comptroller is one of the most difficult cases to decide upon.

Instead of certifying these goods to the Comptroller

It is, therefore, premature to decide at the moment whether the Government stands to gain or lose by the Company's system. We submit that it is reasonable to expect that after a comparatively short time of prosperity the account will probably be in something like equilibrium. This is the normal result of the company's system, which as we have already shown, does not affect the amount of income tax payable.

We submit, therefore, that if at the present moment the account shows a balance against the company it does not at all follow that the Government is losing any income tax from this company, even if it chooses to limit itself to the narrowest possible view of the case.

E. THE LEGAL SOUNDNESS OF THE COMPANY'S METHOD.

The Income War Tax Act contains no provision as to the way in which a company's profits are to be determined. The relevant part of Section 3 of the Income War Tax Act states:

"For the purposes of this Act, "income" means the annual net profit or gain or gratuity, whether ascertained and capable of computation as being wages, salary, or other fixed amount, or unascertained as being fees or emoluments, or as being profits from a trade or commercial or financial or other business or calling, directly or indirectly received by a person from any office or employment, or from any profession or calling, or from any trade, manufacture or business, as the case may be whether derived from sources within Canada or elsewhere; and shall include the interest, dividends or profits directly or indirectly received from money at interest upon any security or without security, or from stocks, or from any other investment, and, whether such gains or profits are divided or distributed or not, and also the annual profit or gain from any other source."

Under this statute until a profit is actually received it is not taxable.

The leading Canadian authority on the subject is "Dominion Income Tax Law" by C.P. Plaxton and F.P. Varcoe which is of particular interest in view of their

If it is therefore preferable to decide
at the moment whether the Government stands to
gain or lose by the Company's system. We app-
reciate that it is necessary to make up
a compositionally strict time of proceeding
account will probably be in some future like
this to the country itself of the
composition, which as we have already shown,
does not affect the amount of income tax payable.
We submit therefore, that it is the present
moment the same as before the com-
pany if does not as it follows that the Government
is losing any income tax from this company, even if
it chooses to insist on the narrowest possible
view of the case.

SUMMARY OF THE COMPANY'S POSITION
The Income Tax Act of 1910 contains no provision
as to the way in which a company's profits are to be
determined. The relevant part of Section 3 of the
Income Tax Act of 1910 states:

"For the purpose of this Act, "income"
means the sum total of profit or
loss arising out of business and expenses
of compensation as paid wages, salaries, or
other fixed amounts, or as per-
centage fees or allowances, or as
profits from a trade or commerce, or
from any office or emoluments, or from any
profession or calling, or from any trade,
manufacture or pursuit, as the case may be
whether derived from some other than
the usual sources; and also interest on
securities or fixtures, or from a property
or from any other investment, and
such gains or profits as may arise from
disposing of or selling the sum total
of gains from such sources."

Under this statute there
exists if it is not taxable
the following definition of the word
as "Domestic Income Tax Law" by C.P. Pilkington and F.P.
which may be of interest to every taxpayer.

being officers in the Department of Justice at the time at which their book was written and, we therefore take it, in close touch with departmental practice.

At page 165 in discussing the way in which profits are ascertained in the case of a business or trade they say:

"A substantial difficulty is at once confronted inasmuch as the statute does not indicate how profits are to be ascertained."

They refer to the method recommended by one English judge of taking into consideration the total assets at the beginning and at the end of any period. They state that another method might be employed by which only the receipts and expenditures were considered and the surplus taken as a proper measure of profits. They then proceed to discuss inventories as follows:

"A third method, which is undoubtedly more widely employed, is to compare the assets and liabilities at the beginning and end of the taxing period excluding, however, from such comparison any reference to capital account There is no express statutory rule in favor of this method, and perhaps a trader could insist on his profit being ascertained by comparison of receipts and expenditures."

At page 168 they discuss the point at which a profit has been "received". We quote this passage without concurring in all that is said:

"The Dominion Act imposes the charge simply upon the annual net profit or gain directly or indirectly received, rather than earned or made, and this provision contemplates the determination of profits by the best accounting system applicable to the particular business in question, and the word "received" must be interpreted to mean received in a sense in which it would be used by a business man in referring to the profits of the year of assessment. In many cases it means "accrued" or "earned" so that profits earned, but not actually received or paid, should wherever a business is carried on be regarded as "received" for the purpose of assessment."

performed by the Department of Justice at
the time of the trial, and the trial was written up
in the New York Times and the New York Post.

way and the consequences of it for us is that we

"A separate individual is as free
as the state to determine his own
mode of life, so long as he does not
infringe upon the rights of others.
In this case, the state has no right
to interfere with the individual's
private life."

They reflect on the broader measure of profile. They often proceed to discuss intermediate as follows:

boundary areas were considerably more similar than the adjacent boundary system. The state of New York only includes parts of the Adirondack Park and the Lake George area. They also include the northern part of the Adirondack Park and the southern part of the Lake George area.

A number of other points were raised by Mr. Justice Laskin, including the question of whether the proposed legislation would be unconstitutional under the Canadian Charter of Rights and Freedoms. The Minister of Justice, Mr. John Crosbie, responded that he believed the legislation was constitutional. The House then voted to proceed with the bill.

At base 168 feet above the bottom of

" Where profits are determined by inventories which must be the case where stocks of goods are carried in the course of manufacture or trade, such inventories should be prepared on the basis of cost unless by the character of the business or a particular and well established custom a lower valuation should be accepted.

In practice the Commissioner permits inventories to be made out on the basis of cost or market value whichever is the lower.

There might be a case where a taxpayer would desire to inventory on a basis higher than cost, i.e., market value in order to distribute his profits over more than one taxation period, but such a method would involve attributing to the word "received" a meaning larger even than "accrued" or "earned". Presumably there must be a turnover of the merchandise before a profit can be said to have accrued or been received."

In the first edition of the same work written also while both the authors were officers of the Department of Justice in the year 1920, and which is important as showing income tax practice in the early days of the Act, we find at page 195 the following:

" In view of the fact that there are only three provisions in the Dominion Act relating to deductions, it must be assumed that, apart from the effect produced by these provisions, the ordinary commercial practice of business men must be wholly relied on in determining net profits. Furthermore the provision to impose the charge upon the annual net profit or gain directly or indirectly received clearly contemplates the determination of profits by the method of business men best suited to the particular business in question. No regulations have been promulgated by the Commissioner to establish accounting methods, and the system adopted by the taxpayer for his own purposes is accepted except in so far as he departs from good commercial practice."

We also quote from the article in the Encyclopaedia Britannica on profits, the following:

" It is absolutely impossible to determine the profits of a going concern from year to year with precision, because nothing more reliable than estimates can then be formed of the value of its outstanding obligations and unrealized possessions."

The Income War Tax Act does not call upon the taxpayer to pay upon mere estimates but only on profits actually received. Professional men of all kinds have made their income tax returns on this basis without objection and companies are entitled to be treated without discrimination on the same footing.

Consider the problem of style changes.
Anyone familiar with the women's -----

astute microeconomist is the joker. To be sure, out of the passes of the market in its struggle for the Commissarioner, little is left. However, a token vestigialism should be safeguarded.

51 Now say as a general case a single digit number may be divided by 9 if the sum of its digits is divisible by 9. If we let $n = a_1a_2\ldots a_k$ be a k -digit number, then $n = 10^k - 1 + a_k$. Since $10^k \equiv 1 \pmod{9}$, it follows that $n \equiv a_k \pmod{9}$. Thus, n is divisible by 9 if and only if a_k is divisible by 9.

In the first edition of the same work which will appear

we find at base 188 the following:

in view of the fact that there are only
- three provisions in the Constitution of the
United States of America, it must be assumed
that, apart from the other provisions of
the Constitution, the ordinary commercial
protection of citizens must be sufficient.
However, if the protection of citizens
against foreign countries is to be effective
it must be based upon the principles of
international law, which are now well known
and understood by all nations.

Heterogobius *Britannicus* or *polypterus*, the toffy-fish.

The Income Tax Act does not allow

the faxboxer of fax upon mere estimates put out by
professional men of the kind have made
scarcely received. Better income fax return on this point of collection and
compares the utility of the present directimbursement
on the same footing.

Consider the problem of safe crossings.

wear trade knows that changes of style take place almost overnight and made up stocks of merchandise until actually disposed of are only of precarious value. It would surely be fair to take such facts as these into consideration in estimating the value of a company's goods or determining the time at which profits should be calculated.

We also submit that as long as any company is in operation it requires a relatively constant amount of cotton and goods in process to clothe its machinery. To this extent the inventory reflects values which are as necessary a part of the operating equipment as the machinery itself, and if it is allowable to carry machinery on the books at constant values, it should also be proper to carry this portion of the inventory also at constant values in a manner which this company has done.

From the foregoing it appears clearly that the precise manner of ascertaining the profits of a business which carries stocks of goods from year to year is a very difficult matter and that any solution must be in the nature of a compromise. Having in mind these difficulties we submit with Messrs. Plaxton and Varcoe that any reasonable system which agrees with sound commercial practice should be acceptable from an income tax point of view.

We further submit that these authorities recognize that account must be taken of the character of the particular business, and while they do not illustrate just what they mean by this statement, it is reasonable to consider that a business exposed to style changes and to such severe fluctuations in the price of its raw material as the textile business

newer types have been made to satisfy
the needs of the market. Some of these
types have been developed by the
Institute of Textile Research and
others by the Textile Research Institute.
The new types are more durable
and have better properties than
the old ones. They are also
more expensive but they are
worth the extra cost.

We also have some new types
of cotton fabrics which are
more durable and have better
properties than the old ones.
These new types are made
from cotton which is
grown in different parts of
the country. These new types
are more expensive but they are
worth the extra cost.

How far the technology of apparel
industry has advanced is reflected
in the development of synthetic
fibers. Synthetic fibers are
made from oilseed plants like
cotton, jute, and hemp. These
fibers are more durable and
have better properties than
the old ones. They are also
more expensive but they are
worth the extra cost.

is clearly a business of a particular character which requires special treatment.

Why should a company be expected to pay income tax on the full value of its goods before they have been sold? The company has not yet made its income on them. Its business is to sell its goods and until the goods have been sold it is impossible to tell whether a profit will be made or not. We submit that to assess income tax on the full value of these goods is to tax imaginary profits, that is, to tax profits before they have been made at all, and that the company was fully justified in its policy of paying its income tax in full on all such goods as soon as its inventory had been turned into cash and the extent of its profits could be properly ascertained. It was only then that such profits were "received" in terms of the taxing statute.

We therefore submit that the company's policy is a sound one, accepted as such by business men, and that accordingly there is no reason why it should not be acceptable as a basis of taxation.

In conclusion we submit that it is not within the jurisdiction of this Commission to deal in any way with the income tax returns or possible liability to income tax of this company. It is abundantly evident that serious questions of law are involved which will be debated before the proper tribunal in due course, and on which on this record it would be premature and even improper to pass.

F. THE COMPANY'S PROFITS.

The company's profits were also discussed by the Commission and a statement prepared by the Commission's accountant setting forth the capitalization of the company according to his opinions and the re-

and the business of a company is to make a profit. If a company does not make a profit it will not be able to pay its debts and it will go bankrupt. This is why it is important for a company to have a good profit margin. The profit margin is the difference between the selling price and the cost of production. It is calculated by dividing the profit by the selling price. The profit margin is usually expressed as a percentage. For example, if a company sells a product for \$100 and its cost of production is \$80, then its profit margin is 20%. This means that the company makes a profit of \$20 on each unit sold. The profit margin is an important factor in determining the success of a company. It is also important for a company to have a good profit margin because it helps to ensure that the company can meet its financial obligations. A company that has a low profit margin may not be able to meet its financial obligations and may go bankrupt. Therefore, it is important for a company to have a good profit margin.

We therefore submit that the company's
policy is a sound one, acceptable as such by
most, and that accordingly there is no reason why it
should not be adopted as a standard of taxation.
In conclusion we submit that the new
Commission of Enquiry to enquire into the
possibility of establishing a tax on income and
the desirability of such a tax, will be
of great service to this country. If the
recommendations of this Commission are
adopted before the present financial year
begins, no objection can be made to this
proposal of ours.

The company's policy was also discussed
in the meeting and a resolution was passed by the
Commissioner's secretary setting forth the classification
of the company according to his opinion and the re-

turn on its capital. According to the Commission's accountant the company would have earned an average profit of 14% from its inception.

The statement of the Commission's accountant is not borne out by the facts, is entirely misleading and should, therefore, be corrected if any useful deductions are to be drawn from it. It has grossly inflated the company's average profits by making use of entirely unsound methods of accountancy.

In the first place, Mr. Howson omits from the company's capital the bonds amounting to \$2,639.408.00, although these were used for the purchase of the company's assets. In figuring out the rate of return upon capital there is no sensible distinction to be drawn between borrowed capital and capital supplied by the shareholders out of their own pockets.

Any economist would regard the bonds of a company as a part of its capital. The Concise Oxford Dictionary defines capital as stock with which a company or a person enters into business. Whether he borrows or not for the purpose of using that stock is a matter of indifference in calculating the return upon the stock actually employed.

Subsection 10 of Section 4 of the Quebec Corporation Tax Act, Chapter 26, of the Revised Statutes of Quebec, as now amended, is statutory authority for the treatment of bonds as part of a company's capital.

ent of publishing. According to him
there would be no objection to the
return of the book to Mr. H. C. T.
in consideration of the fact that
the statement of the Comptroller's
representative is not far from the facts.
There has been a considerable amount of
time, he believes, if it was necessary
to have the book returned. It has
been necessary to draw the
attention of the Comptroller to the
matter, he says, because he
wishes to see that the
writing uses only literary
language.

ANSWERING

In the first place, Mr. Howard admits
that there is no objection to the
return of the book to Mr. H. C. T.
but says more care must be used
in doing so. In
the purchase of the company's assets
figuring out the value of the
difference between the
present price and the
original price of the
book is a matter of
some difficulty. In
order to do this, it is necessary
to know what a
person can get
for the book. Mr. Howard
says that he does not know
what a person can get
for the book. He
believes that the
purpose of making
the return is to
indifference in
the book's value.

ANSWERING A QUESTION

Section 10 of the
General Corporation Tax Act, Chapter 26, of the
General Assembly of 1900, as now stands,
provides that the tax shall be
paid as base of a company's assets

In the second place, the Commission's accountant appears to consider that the only real capital of a business man is the one he employs when he first goes into business. If any savings are made and reinvested in the business he does not consider this as part of the company's capital for the purpose of finding out what are its profits. This is manifestly contrary to common sense and calls for no other comment. It would be interesting, however, to know how the Commission accountant would establish the profits of a person like Lord Nuffield who is stated in recent publications to have started with a capital of Five pounds, out of which he is now distributing as many millions in a single year.

In the third place, in order to increase the rate of profit the Commission accountant deducts the capital losses made by the company in selling off mills of little value. Because the company at a certain stage makes a capital loss he treats this money as if it had never been invested, although rather inconsistently he takes no account of capital gains and savings for the same purpose. We submit these deductions are not proper if it is desired to ascertain with any accuracy what has been the return on the capital put into the company.

In the fourth place, in his efforts to make the capital of the company look as small as possible in order to make the profit look as large as possible, the Commission accountant has further deducted from the capital a sum of \$250,000.00. The company acquired in 1892 the mills of Canada Cotton Manufacturing Company and these were placed on the books at their

In the second place, the Company's
second largest source of revenue may not only
be due to a business man in the one or
two districts to which goes into business. It
may save the time and trouble in the
process of getting this as best of
the company's objects for the purpose of finding
out what the firm may do for
lastly contrary to common sense and safety for
one other company. If money is to be
spent now for the Company's account
now by establishing the branch in recent months
Lord Maitland who is now participating
in the sale of shares with the
company, out of which is to be
as many millions in a single year.
In the third place, in order to increase
the rate of profit the Company's
debtors the quality losses made by the company
to sell off will be little value. Because
the company at a certain stage makes a quality
losses by it as bad money as it is never
need invested, although rather immediately
in the account of quality losses and savings
we take no account of quality losses and
for the same purpose. We simply have de-
ferred to it if it is desired to
make up the account with the company
return on the quality lost into the company.
In the fourth place, in this effort to
make the quality of the company look as small
as possible in order to make the profit look
as large as possible, the Company's account
was further reduced from the quality a sum of
\$520,000.00. The company sold in 1885
the mills of Gausas Cotton Manufacturing Company
and please note below on the books of their

appraisal value of \$1,050,000.00. Mr. Howson claims that the shareholders of Canada Cotton Manufacturing Company only got \$800,000.00, but this transaction is only one of seven such transactions which took place at the same time. The total appraisal value of the properties purchased was \$4,900,000.00 and this was the amount actually paid, represented by \$2,600,000.00 common stock, \$2,000,000.00 bonds and \$300,000.00 bonds assumed. It is evident, therefore, that if the shareholders of one mill received less than the appraisal value, the shareholders of others received more.

In the fifth place, the Commission accountant further considers that the company carries its assets at an excessive depreciation although these are the depreciations allowed under the taxing statutes of the country, and he proposes to add a sum of \$9,000,000.00 on the basis of the amount of fire insurance carried by the company. But this value is a very different one from anything which the company could obtain for its properties. A striking example of this is given in the sale of the Cornwall Mill of the Cornwall York and Manufacturing Company which took place last September. It was carried on the books of the company at \$106,209.17. It was insured for \$173,544.00. It was sold for \$10,000.00 and as it had become a liability this was so much found money for the company. This is not an isolated case and can be supported by similar sales. It is therefore evident that the insurance appraisal figure bears no relationship either to the book value or to the realizable value of a company's assets and cannot be properly used for the purpose for which it was used by the Commission's accountant

in preparing his statement.

The company's auditor has prepared a proper statement from the returns filed with the Commission showing the capital employed by Canadian Cottons, Limited and its annual earnings from 1893 to 1936, and this shows on its face the true state of affairs and that this company for over forty-four years has made an average profit of 4.95%. It should be noted that a substantial part of this profit has not been received in cash by the shareholder but has been reinvested for him in the company and is only available in the form of goods, plant and buildings. At any time at which the shareholders might wish to realize this, it is evident from the Cornwall Mill sale that they could not hope to receive any very substantial consideration for their investment, which is only valuable if the company continues to operate on a dividend basis.

As to the distributions of profits, these have always been on a very modest scale. For the eleven-year period from 1926 to 1936 the company's total sales amounted to \$85,414,227.19. Of this amount the employees of the company, exclusive of the executive and of office salaries, received \$26,519,201.00 or 31%. The shareholders, both preferred and common, received a total during the same period of \$3,720,030.00 or 4.3%.

CONCLUSION

In submitting the above argument to the Commissioner, Canadian Cottons, Limited wishes to state that it has uniformly tried over a period of forty-four years to conduct its affairs in a way that has been fair to its employees, its shareholders, its customers, the consuming public

in proportionate his expenses.

The company's auditor has prepared a

better statement from the letter which the

Commission showing the capital employed by

Canadian Cotton, Limited and its annual surpluses

from 1883 to 1886, and this shows no loss for

the state of affairs and just fits this company for

over forty-four years as a average profit

of £69.4 to £70. It should be noted that

it is not necessary to deduct this loss to bring

the statement of the company's net revenue for the

loss of goods, interest and postage.

which the Superintendent might well do if

it is necessary to deduct this loss from the

total cost of raw material used by the company

which is about £100,000 per annum.

It is evident from the statement that the

company's net revenue for the year 1886 was

£10,000 less than that for 1885.

It is evident from the statement that the

company's net revenue for the year 1885 was

£10,000 less than that for 1884.

It is evident from the statement that the

company's net revenue for the year 1884 was

£10,000 less than that for 1883.

To deduct this sum from the revenue

of £8,450,000 or £8,450,000.

CONCLUSION

In arriving at the above statement of the

Commissioner, Canadian Cotton, Limited wages of

laborers and other expenses of the company

and of the company's expenses of the company

and of the company's expenses of the company

and of the company's expenses of the company

and the Government, and that throughout its entire history it has had but one objective,- to build up an industry that will be a credit to this country.

We reserve the right to reply, if necessary, to anything submitted by Commission Counsel not dealt with in the foregoing Brief.

MONTREAL, January 15th, 1937.

Campbell McMaster Loutit King & Munro

Attorneys for Canadian
Cottons, Limited.

and the Government and the Opposition is
entirely material if we had put one objective
there is no difficulty that will be put up by
to put it in this country.

We reserve the right to ready it
necessary to submitting a communication
Committee not least with the Foreign Brief.

Very, S. J. Vandyck, Secretary.

Affirmative for consideration
Opposite, H. C. G. T.

SCHEDULE SHOWING GOODS TAKEN IN STOCK AT
LISTED SELLING PRICE, MARCH 31st, 1936,
AND EITHER STILL ON HAND OR SOLD WHOLLY
OR IN PART AT PRICES BELOW INDICATED
COVERING ONLY THE MARYSVILLE AND MILLTOWN
MILLS OF CANADIAN COTTONS, LIMITED.

	Yardage in Inventory	Inventory List Price Per Yard.	Total List Price	Actual Price at which goods Offered or Sold	Estimated Loss on In- ventory Sold or Unsold.
. Andrews	123,807	.11 $\frac{1}{4}$	\$13,928.29	.08	\$ 4,023.73
eneagles	67,873	.13 $\frac{1}{4}$	8,993.17	.08	3,563.33
. Croix	71,715	.15	10,757.25	.12 $\frac{1}{2}$	1,792.88
982	38,127	.10	3,812.70	.08	762.54
13	23,655	.15	3,548.25	.11	946.20
553	8,194	.16 $\frac{3}{4}$	1,372.50	.12 $\frac{1}{2}$	348.25
950	164,442	.25	41,110.50	.23	3,288.84
955	266,562	.24	63,974.88	.22	5,331.24
965	32,768	.27 $\frac{1}{2}$	9,011.20	.23 $\frac{1}{4}$	1,392.64
970	58,798	.24	14,111.52	.20	2,351.92
990	69,529	.19	13,210.51	.17 $\frac{1}{2}$	1,042.94
.012	27,573	.37 $\frac{1}{2}$	10,339.88	.36	413.60
.016	34,431	.50	17,715.50	.45	1,721.55
.017X	20,361	.67 $\frac{1}{2}$	13,743.68	.62	1,119.86
.037	13,488	.32	4,316.16	.25	944.16
108	34,090	.21 $\frac{1}{2}$	7,329.35	.15	2,215.85
341	3,783	.33	1,248.39	.20	491.79
1 l etc.	133,954	.12 $\frac{1}{2}$	16,744.25	.10 $\frac{3}{4}$	2,344.20
87	74,543	.15	11,181.45	.11 $\frac{1}{2}$	2,609.00
90-91	43,840	.20	8,768.00	.18 $\frac{1}{2}$	657.60
S	13,260	.62 $\frac{1}{2}$	8,287.50	.55	994.50
PS	8,353	.57 $\frac{1}{2}$	4,802.98	.51 $\frac{1}{2}$	501.18
20	25,488	.46	11,724.48	.38	2,039.04
21	704	.35	246.40	.31 $\frac{1}{2}$	24.64
32	7,071	.46	3,181.95	.38	565.68
33 - X	15,828	.30	4,748.40	.26	633.12
34N	45,514	.50	22,757.00	.43	3,185.98
35	2,208	.57 $\frac{1}{2}$	1,259.60	.37	452.64
37	3,043	.33 $\frac{1}{2}$	1,019.41	.20	410.81
38	22,102	.67 $\frac{1}{2}$	14,918.85	.62	1,215.61
39	8,555	.46	3,935.30	.42	342.20
40	20,829	.46	9,581.34	.42	833.16
41	8,025	.47 $\frac{1}{2}$	3,811.88	.43	361.13
M 600	33,223	.27 $\frac{1}{2}$	9,136.33	.15	4,152.88
M 601	2,977	.27 $\frac{1}{2}$	818.68	.15	372.13
M 603	16,023	.25	4,005.75	.15	1,602.30
M 606	6,170	.25	1,542.50	.15	617.00
M 608	37,984	.19	7,216.96	.12 $\frac{1}{2}$	2,468.96
M 609	4,484	.17 $\frac{1}{2}$	784.70	.12 $\frac{1}{2}$	224.20
M 610	61,133	.40	24,453.20	.19 $\frac{1}{2}$	12,532.27
M 620	27,585	.27 $\frac{1}{2}$	7,585.88	.15	3,448.13
M 621	4,938	.30	1,481.40	.15	740.70
M 622	3,987	.25	996.75	.18 $\frac{1}{2}$	259.16
M 623	4,237	.27 $\frac{1}{2}$	890.18	.17 $\frac{1}{2}$	423.70
M 624	2,461	.27 $\frac{1}{2}$	676.78	.17 $\frac{1}{2}$	246.10
M 625	1,082	.25	270.50	.15	108.20
M 626	15,991	.25	3,997.75	.15	1,599.10
M 629	3,932	.27 $\frac{1}{2}$	1,081.30	.15	491.50
M 718	1,249	.22 $\frac{1}{2}$	281.25	.15	93.68
M 733	3,365	.30	1,009.50	.15	504.75
M 832	4,374	.30	1,312.20	.28	87.48
M 840	234	.35	81.90	.20	35.10
M 841	6,454	.30	1,936.20	.20	645.40
M 887	6,288	.22 $\frac{1}{2}$	1,414.80	.13 $\frac{1}{2}$	565.92
M 894-M	12,580	.27 $\frac{1}{2}$	3,459.50	.22 $\frac{1}{2}$	629.00
M 8940	6,670	.25	1,667.50	.22 $\frac{1}{2}$	166.75
M 897	26,181	.32	8,377.92	.27 $\frac{1}{2}$	1,178.15
M 898	6,748	.34	2,294.32	.30	269.92
M 8938	19,832	.37 $\frac{1}{2}$	7,437.00	.34 $\frac{1}{2}$	594.96

OR IN PART AT PRIORS BILLOW INDICATED
AND EITHER SPLIT ON HAND OR SOLD MONTHLY
SCHEDULED SHOWING GOODS TAKEN IN STOCK AT
MARCH 31ST, 19

*On the board
This board can
be sold by reduction*

Style	Yardage in Inventory	Inventory		Total	Actual Price at which goods	List Price Offered or Sold	Estimated Loss on Inventory Sold or Unsold.
		List Price	Per Yard.				
M 899-M	5,185	.50	18.5	2,592.50	.40		518.50
M 900	5,906	.18½		1,092.61	.12½		354.36
M 920	8,024	.25		2,006.00	.16½		682.04
M 930	2,707	.25		676.75	.15		270.70
M 940	4,964	.35		1,737.40	.18½		819.06
3022	4,016	.60		2,409.60	.30		1,204.80
4002	16,179	.27½		4,449.23	.20		1,213.43
4006	2,471	.37½		926.63	.22½		370.65
4018	40,755	.55		22,415.25	.28		11,003.85
4020	5,674	.37½		2,127.75	.25		709.25
4021	28,460	.30		8,538.00	.25		1,423.00
4023	14,100	.60		8,460.00	.30		4,230.00
4024	3,038	.60		1,822.80	.30		911.40
4030	4,816	.50		2,408.00	.45		240.80
4031	4,096	.55		2,252.80	.30		1,024.00
4033	55,016	.35		19,255.60	.30		2,750.80
4034	5,306	.50		2,653.00	.35		795.90
4050	4,474	.47½		2,125.15	.40		335.55
4051	4,569	.50		2,284.50	.40		456.90
4052	5,179	.37½		1,942.13	.25		647.39
4057	4,608	.47½		2,188.80	.25		1,036.80
4058	3,416	.50		1,708.00	.20		1,024.80
SF 1	7,117	.35		2,490.95	.25		711.70
SF 2	25,907	.47½		12,305.83	.22		6,606.29
SF 10	6,624	.35		2,318.40	.30		331.20
D 120	3,000	.25		750.00	.14		330.00
D 122	9,600	.25		2,400.00	.15		960.00
D 130	2,640	.25		660.00	.15		264.00
D 142	18,100	.25		4,525.00	.15		1,810.00
D 132	10,740	.25		2,685.00	.16		966.60
D 133	9,660	.25		2,415.00	.13½		1,110.90
D 137	19,440	.25		4,960.00	.13		2,332.80
D 145	17,560	.22½		3,951.00	.15		1,317.00
D 146	11,530	.22½		2,594.25	.15½		807.10
D 147	7,710	.25		1,927.50	.15		771.00
D 148	3,600	.22½		810.00	.15½		252.00
D 150	11,520	.45		5,184.00	.29		1,843.20
D 151	11,080	.45		4,986.00	.29		1,772.80
D 152	13,380	.45		6,021.00	.30		2,007.00
D 154	10,540	.45		4,743.00	.37½		790.50
M 627	9,834	.19		1,868.40	.17		196.68
F 578	66,847	.20		13,369.40	.18½		1,002.71
B 1	1,580	.19½		312.05	.15		75.05
				639,052.55			141,261.84
							415,362.72

*On the board
This board can
be sold by reduction*

NOTE : The Gibson and St.Croix Mills at Marysville and Milltown respectively are those in which fluctuations of price are most likely to occur. The foregoing represents a decline of 22.10% upon a substantial part of the company's inventory and many of these prices will have to be reduced still further to effect a sale. It is to be noted that this happens in a year of partial recovery when the best results should normally be looked for. A discount being necessary to cover unquestioned items has been tentatively suggested as 20%. It will be seen from the foregoing that the difference between the estimate at the end of the year and the price of actual sale may easily call for an additional discount of a substantial nature and that the company's discounts are, therefore, by no means extravagant or taken on any clearly wrong basis.

Price of 100% on Jan 1/16

CANADIAN COTTONS LIMITED

CAPITAL EMPLOYED

Year	Bonds	Preferred Stock	Common Stock	Undistributed Surplus	Total
1893	2,092,000.		2,700,000.	122,526.	4,914,526.
1894	2,109,000.		2,700,000.	125,277.	4,934,277.
1895	2,140,000.		2,700,000.	251,733.	5,091,733.
1896	2,100,000.		2,700,000.	494,786.	5,294,786.
1897	2,100,000.		2,700,000.	516,662.	5,316,662.
1898	2,050,000.		2,700,000.	627,538.	5,377,538.
1899	1,950,000.		2,700,000.	784,416.	5,434,416.
1900	1,950,000.		2,700,000.	1,024,844.	5,674,844.
1901	1,950,000.		2,700,000.	1,128,178.	5,778,178.
1902	1,850,000.		2,700,000.	1,130,986.	5,680,986.
1903	1,850,000.		2,700,000.	1,135,669.	5,685,669.
1904	1,850,000.		2,700,000.	1,141,475.	5,691,475.
1905	1,850,000.		2,700,000.	1,231,567.	5,781,567.
1906	1,850,000.		2,700,000.	1,328,754.	5,878,754.
1907	1,850,000.		2,700,000.	1,394,330.	5,944,330.
1908	1,850,000.		2,700,000.	1,534,190.	6,084,190.
1909	1,850,000.		2,700,000.	1,548,557.	6,098,557.
1910	1,850,000.		2,700,000.	1,588,003.	6,138,003.
1910 ($\frac{1}{2}$ yr)	1,850,000.	1,000,000.	2,700,000.	1,602,762.	7,152,762.
1911 ($\frac{1}{2}$ yr)	3,650,000.	3,575,000.	2,715,500.	426,282.	10,366,782.
1912	3,650,000.	3,575,000.	2,715,500.	600,760.	10,541,260.
1913	4,203,700.	3,661,500.	2,715,500.	805,973.	11,386,673.
1914	4,205,000.	3,661,500.	2,715,500.	969,225.	11,551,225.
1915	4,205,000.	3,661,500.	2,715,500.	1,129,890.	11,711,890.
1916	4,194,000.	3,661,500.	2,715,500.	1,748,047.	12,319,047.
1917	4,194,000.	3,661,500.	2,715,500.	2,262,350.	12,833,350.
1918	4,194,000.	3,661,500.	2,715,500.	3,010,241.	13,581,241.
1919	3,979,452.	3,661,500.	2,715,500.	3,647,378.	14,003,830.
1920,	3,498,054.	3,661,500.	2,715,500.	4,894,150.	14,769,204.
1921	3,393,480.	3,661,500.	2,715,500.	3,491,037.	13,261,517.
1922	3,439,645.	3,661,500.	2,715,500.	3,467,313.	13,283,958.
1923	3,399,717.	3,661,500.	2,715,500.	4,047,412.	13,824,129.
1924	3,357,509.	3,661,500.	2,715,500.	3,891,832.	13,626,341.
1925	3,300,161.	3,661,500.	2,715,500.	3,998,331.	13,675,492.
1926	3,258,408.	3,661,500.	2,715,500.	4,743,603.	14,379,011.
1927	3,128,182.	3,661,500.	2,715,500.	4,707,793.	14,212,975.
1928	3,083,024.	3,661,500.	2,715,500.	4,884,132.	14,344,156.
1929	3,026,087.	3,661,500.	2,715,500.	4,734,897.	14,137,984.
1930	2,968,825.	3,661,500.	2,715,500.	4,282,090.	13,627,915.
1931	2,913,795.	3,661,500.	2,715,500.	3,754,199.	13,044,994.
1932	2,519,020.	3,661,500.	2,715,500.	3,426,877.	12,322,897.
1933	1,865,884.	3,661,500.	2,715,500.	3,276,301.	11,519,185.
1934	1,852,432.	3,661,500.	2,715,500.	3,571,821.	11,801,253.
1935	352,967.	3,661,500.	2,715,500.	3,954,338.	10,684,305.
1936		3,661,500.	2,715,500.	4,007,312.	10,384,312.
TOTAL	118,773,342.	96,026,000.	121,903,000.	102,445,837.	439,148,179.
Average per yr.	2,639,408.	2,133,911.	2,708,955.	2,276,574.	9,758,848.

CANADIAN COTTONS LIMITED

ANNUAL EARNINGS

Year	Bond Interest	Dividends on Common Stock	Dividends on Pref. Stock	Added to Surplus	TOTAL	%
1893	114,000.00	121,050.00	-	122,526.03	357,576.03	7.27
1894	117,540.00	81,000.00	-	2,751.17	201,291.17	4.07
1895	119,550.00	-	-	126,456.06	246,006.06	4.83
1896	129,000.00	-	-	243,053.32	372,053.32	7.02
1897	126,000.00	-	-	21,876.32	147,876.32	2.78
1898	126,000.00	-	-	110,875.74	236,875.74	4.40
1899	123,000.00	54,000.00	-	156,877.45	333,877.45	6.14
1900	117,000.00	108,000.00	-	240,428.14	465,428.14	8.20
1901	117,000.00	108,000.00	-	103,334.67	328,334.67	5.68
1902	111,000.00	108,000.00	-	2,807.95	221,807.95	3.90
1903	111,000.00	108,000.00	-	4,683.11	223,683.11	3.93
1904	111,000.00	108,000.00	-	5,805.37	224,805.37	3.95
1905	111,000.00	-	-	90,092.20	201,092.20	3.47
1906	111,000.00	54,000.00	-	97,186.68	262,186.68	4.46
1907	111,000.00	81,000.00	-	65,576.43	257,576.43	4.33
1908	111,000.00	108,000.00	-	139,860.27	358,860.27	5.90
1909	111,000.00	108,000.00	-	14,366.53	233,366.53	3.82
1910	111,000.00	108,000.00	-	39,445.99	258,445.99	4.21
1910 ($\frac{1}{2}$ yr)	78,000.00	27,000.00	-	14,759.12	119,759.12	3.34
1911	($\frac{1}{2}$ yr) 100,500.00	-	53,625.00	77,895.05	232,020.05	4.48
1912	201,000.00	-	214,500.00	174,477.38	589,977.38	5.59
1913	207,500.00	-	215,797.50	205,213.18	628,510.68	5.52
1914	210,000.00	-	219,690.00	163,252.63	592,942.63	5.13
1915	210,250.00	-	219,690.00	160,665.29	590,605.29	5.04
1916	209,700.00	-	219,690.00	618,156.66	1,047,546.66	8.50
1917	209,700.00	108,620.00	219,690.00	514,302.49	1,052,312.49	8.19
1918	209,700.00	122,197.50	219,690.00	747,891.96	1,299,479.46	9.57
1919	209,700.00	162,930.00	219,690.00	637,136.16	1,229,456.16	8.77
1920	177,660.00	176,507.50	219,690.00	1,246,772.40	1,820,629.90	12.32
1921	188,607.00	217,240.00	219,690.00	1,403,112.99	777,575.99	5.85
1922	176,934.70	217,240.00	219,690.00	23,723.31	590,141.39	4.44
1923	162,046.32	217,240.00	219,690.00	580,099.18	1,179,075.50	8.52
1924	160,167.21	217,240.00	219,690.00	155,580.58	441,516.63	3.24
1925	157,079.30	217,240.00	219,690.00	106,498.61	700,507.91	5.12
1926	154,924.32	217,240.00	219,690.00	745,271.62	1,337,125.94	9.30
1927	148,324.51	217,240.00	219,690.00	35,809.54	549,444.97	3.86
1928	145,651.59	217,240.00	219,690.00	176,339.81	758,921.40	5.29
1929	143,716.52	217,240.00	219,690.00	149,235.74	431,410.78	3.05
1930	139,472.31	162,930.00	219,690.00	452,807.13	69,285.18	.51
1931	137,723.14	-	219,690.00	527,891.21	170,478.07	1.30
1932	132,465.89	-	219,690.00	327,321.90	24,833.99	.20
1933	87,029.60	-	219,690.00	150,575.78	156,143.82	1.35
1934	81,648.00	54,310.00	219,690.00	295,520.03	651,168.03	5.51
1935	81,491.39	108,620.00	219,690.00	382,517.12	792,318.51	7.41
1936	20,670.75	108,620.00	219,690.00	52,973.45	401,954.20	3.86
TOTAL	6,229,752.55	4,241,945.00	5536,792.50	5,261,687.39	21,270,177.44	
Average per yr.	141,585.28	96,407.84	125,836.19	119,583.81	483,413.12	4.95

CANADIAN COTTONS LIMITED

ANNUAL MARCHINGS.

